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SUBJECT: BOSPHORUS BYPASS PIPELINES -- THE SITUATION IN TURKEY

REF: A. ISTANBUL 262  
B. ANKARA 2071

Sensitive But Unclassified -- Not for Internet Distribution

¶1. (SBU) Summary: The Turkish Government supports construction of a bypass pipeline to reduce the rising volume of oil tanker traffic through the Turkish Straits. Two consortia are promoting bypass projects in Turkey -- one via Thrace and the other from Samsun to Ceyhan -- and have applied for licenses to proceed. However, many observers doubt that a bypass will be built because it is still cheaper to ship via the Straits and because of the free rider problem. The Thrace proposal is the cheapest option but faces some environmental concerns and possible resistance from the MFA; the more expensive Samsun project is closer to the east Black Sea oil export ports and will take advantage of the established oil port at Ceyhan. End Summary.

The Bosphorus Bottleneck

¶2. (U) Tanker traffic in the Turkish Straits continues to rise. The amount of oil shipped through the Straits has more than doubled since 1997, from 60 million tons in 1997 to 134 million tons in 2003. This has meant not only more tankers but also larger tankers making their way through the narrow and congested Straits. (More than 2,000 vessels per day transit the Straits.) Turkish officials are increasingly concerned that the Straits are approaching the maximum safe limit for oil tanker traffic and fear that increasing traffic will lead to a serious tanker accident.

¶3. (SBU) Turkish officials continue to stress that they have no intention to modify the Montreux Convention, under which Turkey is obligated to maintain free passage for all vessels. However, they have implemented several safety requirements to reduce the risk of the largest oil tankers. For example, because the largest tankers must frequently cross the channel, Turkish authorities allow them to transit in one direction at a time, effectively limiting the number to 6 per day. With more and more traffic funneling through the Straits, delays are becoming more frequent and severe, raising the cost to the oil companies. For example, last winter bad weather caused long delays in tanker traffic, costing the oil companies hundreds of thousands of dollars per tanker (ref a). Russian oil companies complained that Turkey was using safety concerns to unnecessarily reduce tanker traffic, and Transneft called for construction of a bypass pipeline.

¶4. (SBU) Although most observers agree that bypass pipelines are desirable, most of our contacts are skeptical that any will be built soon. First, most observers maintain that, even with rising costs due to insurance and delays transiting the Bosphorus, it is still significantly cheaper to ship through the Straits than to commit to using a pipeline. Second, there is the problem of free riders. If some companies begin to transport oil via a bypass pipeline, delays will be reduced, reducing the cost to the shippers who opted out of the bypasses. Many contacts told us that, without the agreement of all the oil companies to use a bypass, individual oil companies will not commit. Former Energy U/S Yigitguden told us that oil companies will be glad to support a bypass pipeline, but they will only use it as a relief valve -- when temporary delays in the Straits make using the bypass a viable option. However, the Chairman of Thrace Development Corporation (the Thrace bypass developer) assured us that the Thrace pipeline is already price competitive and a number of oil companies have expressed their willingness to use the pipeline.

Bypass Pipelines

¶5. (SBU) Plans for bypass pipelines have been in the works for a number of years. There are currently four proposals to offload oil in the Black Sea and transfer it to the Mediterranean: 1) from Burgas in Bulgaria to Vlore in Albania; 2) from Burgas to Alexandroupolis in Greece; 3) via Thrace; and 4) from Samsun to Ceyhan.

-- The Thrace pipeline would run 195 km across Thrace

(northwest of Istanbul), and would be able to transport 1.5 mbd of crude from the Black Sea to Saros Bay in the Aegean, at a total cost of about USD 615 million. The Thrace plan is the shortest and cheapest option. However, there are no port facilities for large oil tankers; the project will include Single Port Mooring buoys for off- and on-loading the crude. Environmental groups have voiced opposition to the project, claiming that tanker traffic would harm the delicate ecosystem in Saros Bay. Thrace Chairman Lowe told us that he has financial banking for the project and adequate throughput commitments from several oil companies.

-- There have been frequent reports that Transneft is involved in the Thrace bypass. Lowe confirmed that Thrace has no relationship with Transneft. Transneft supported a Thrace copy-cat project with a Turkish firm, Anadolu Energy. However, this project has not gotten off the ground, and a recent press report from Moscow indicated that Transneft has abandoned this option, though Lowe told the Ambassador recently that he understood Transneft was in Ankara lobbying.

-- The Samsun-Ceyhan project will run from the Black Sea port of Samsun to the oil export port of Ceyhan. (The Kirkuk-Yumurtalik pipeline from Iraq terminates at Ceyhan as will the BTC pipeline when it begins operation next year.) The pipeline would be able to transport 1.1 mbd, at a cost of USD 1.1 billion. The lead company is Calik Energy, a Turkish firm with a number of energy projects in Turkmenistan. In the initial stage, the project could use an existing pipeline from a large refinery complex near Ankara to Ceyhan. The Samsun line, although more expensive, has two advantages: it will use deepwater ports, and Samsun is much closer to the major oil exporting ports in the eastern Black Sea. Both Thrace and Calik have license applications pending before the GOT.

#### Where Does Turkey Stand

16. (SBU) Turkish officials in the MFA and Energy Ministry have voiced support for a bypass, and the MFA has quietly floated a proposal to solve the free rider program. MFA Energy Chief Hakkı Akil has asked the oil companies to agree on a statement of voluntary principles (ref b), expressing their commitment to use bypass pipelines that come available.

However, a Western oil company official told us that although the Western oil companies publicly support the idea, in private they are concerned that the Russian companies will not abide by the voluntary principles. He added that the principles would publicly commit the Western companies to a high standard, that could be used as a precedent for their operations worldwide -- significantly increasing their costs.

17. (SBU) Energy Ministry U/S Demirbilek told us the Ministry recommended that the Council of Ministers approve licenses for Thrace and Calik. He explained that the licenses were conditional and would give the companies six months to evaluate and address the environmental impact, demonstrate throughput guarantees, arrange financing. In this way, the Turkish state assumes no risk for either project and will allow them to go forward if they can demonstrate that they are commercially viable. However, the Thrace application has been stuck in the Council of Ministers for nearly two months. Calik just recently submitted their application.

18. (SBU) We have not been able to get an explanation for the delay, but Thrace official Yilmaz Oz learned from a government contact that MFA was the only Ministry not to approve. It may be that some in the MFA prefer the Samsun-Ceyhan project or want to ensure an important role for Turkish companies. BOTAS CEO told us that no bypass project had much of a chance without BOTAS participation, and that he personally favored the Samsun-Ceyhan route. (Under legislation passed in 2001, BOTAS was to be broken up and privatized, but GOT has taken steps in recent months to preserve BOTAS as a major player in energy.)  
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